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TREASURY FOR FTAT, OCC/SIEGEL, AND OASIA/ICB/MAIER
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SUBJECT: Stress Tests Find Austrian Banks Safe, Current Measures Sufficient

REF: VIENNA 828 and previous

Sensitive but Unclassified -- Protect accordingly.

¶1. (SBU) SUMMARY: According to Austria's National Bank (OeNB), major Austrian banks will not need large-scale recapitalization even if the recession deepens further in Austria and eastern Europe. This is the main finding of OeNB stress tests published on July 6. Bank Tier 1 capital ratios would fall, but remain above the 4.0% minimum legal requirement. Existing support measures, including the EUR 15 billion state equity pot, should suffice. The results are also significant, as Austria is among the first European countries to publish its financial sector stress results in any detail. END SUMMARY.

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STRESS TEST ASSUMPTIONS
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¶2. (U) On July 6, the OeNB published the findings of its latest stress tests (tests which followed international best practices, according to the IMF's recent Article IV consultations). The test assumes a drastic economic scenario: a deeper-than-expected recession in Austria with GDP shrinking by -4.6% in 2009 and -2.7% in 2010, combined with an unexpectedly deep recession in CESEE/CIS of -4.3% in 2009 and -5.5% in 2010. Such a severe (but plausible) recession would strain the Austrian banking system, particularly the six large banks with exposure in both Austria and CESEE/CIS.

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RESULTS OF STRESS TESTS
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¶3. (U) The Austrian banking sector, including large banks, would remain above the 4.0% minimum Tier I capital requirement. It would cause a doubling (to almost 10%) of the non-performing loan (NPL) ratio of the domestic exposure to nonbanks, and a three-fold increase in the NPL ratio in CESEE to 20%. Write-downs could reach EUR 30 billion in 2009-2010. Operating income would also shrink. As a result, the average Tier 1 ratio (including EUR 8.4 billion equity from the GoA's bank rescue package and an additional EUR 0.7 billion from third parties) of Austrian banks would drop from 8.9% to 6.1% in December 2010 (6.8% if banks use the full EUR 15 billion available in the GoA equity capital pool). The average Tier 1 ratio of the six largest Austrian banks would drop from 8.5% now to 5.1% in 2010 (6.0% if they use all available GoA equity).

¶4. (U) Though it cannot release individual statistics, the OeNB says that each major Austrian bank would have Tier 1 capital above the 4% regulatory minimum in the high-stress scenario. (NOTE: it's unclear whether this includes German-owned Hypo Alpe Adria/HAA, whose troubles are longstanding - reftel). Some smaller banks could fail to meet the minimum capital requirement, but the amount necessary to lift them above this threshold is less than .5% of the Austrian banking system's total capital and virtually all such endangered

banks are embedded in the Raiffeisen, Volksbanken, or Sparkassen groups which have a tradition of mutual assistance, says the OeNB.

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CONCLUSIONS
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¶5. (SBU) Austria's central bank concludes that the banking system is sufficiently capitalized and all major Austrian banks are in a position to withstand even a severe deterioration of the economic crisis. OeNB Executive Director Andreas Ittner, responsible for financial markets and bank supervision, said publicly that banks do not need additional capital now and that the GoA's bank rescue package remains sufficient. OeNB Governor Ewald Novotny said that even if banks find a future need for capital, there is sufficient money left in the state equity pot and banks may prefer to raise capital privately.

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Updated CESEE Exposure Data
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¶6. (SBU) According to new OeNB statistics, CESEE exposure of banks headquartered in Austria (mainly Raiffeisen International, Erste Bank, Volksbanken and BAWAG) fell in the first quarter about 5% from year-end 2009 to EUR 185 billion. Including Austrian banks headquartered elsewhere (mainly Italian-owned Bank Austria and German-owned HAA, but also smaller banks like Turkish DenizBank), total CESEE exposure in Q1/2009 was EUR 287 billion, again down about 5%.

HOH